



# GUIDE TO THE CPHRM EXAM RISK FINANCING DOMAIN



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# INTRODUCTION

The risk financing domain is a challenge for many test-takers, since the subject is sometimes outside the scope of work for early-career risk professionals. ASHRM's subject matter experts have identified a need for additional guidance in this domain.

The Guide to the CPHRM Exam Risk Financing Domain provides an outline of the core competencies and learning objectives, to help you study for the risk financing questions. This guide also includes sample risk financing questions that resemble the type of questions included in the exam.

The 110-question CPHRM Exam covers five risk management content areas. This guide is for the 15 questions that make up the risk financing portion of the exam.





# EXAM SPECIFICATIONS AND LEARNING OBJECTIVES

The risk financing domain of the CPHRM Exam covers six core competencies. ASHRM's subject matter experts have identified 26 learning objectives that align to those core competencies.

This content outline is intended to help you identify your strong and weak areas in this domain and to guide you in your self-study



# EXAM SPECIFICATIONS AND LEARNING OBJECTIVES

Exam Specifications = Blue

Learning Objectives Aligned with Exam Specifications = Red

**Manage a broad comprehensive insurance program including such activities as captive management, insurance, insurance purchasing, insurance consulting, administering self-insured coverages, and managing and coordinating the management of claims of all lines of insurance.**

- Identify the components of a declaration page of an insurance policy.
- Explain the financial impact of Risk Retention and Risk Transfer.
- Describe the process necessary to prepare for a successful insurance renewal.
- Explain the cyclical nature of the insurance market and the characteristics of a soft vs. hard market.
- Analyze approaches to financing self-insured retention (SIR) programs.
- Determine strategies for responding to a negative claims history.
- Analyze enterprise trends in loss run data from different coverages.
- Determine which factors make up the financial strength of an insurance company.
- Identify the requirements needed for medical practitioners practicing in states with patient compensation fund statutes.

**Oversee the investigation of accidents or circumstances that could lead to financial loss (e.g., professional, institutional, general liability, and product liability)**

- Identify intentional vs. unintentional risk acceptance.
- Identify the rationale for a formalized purchasing process such as a request for proposal (RFP).

**Analyze historical loss experience; address trends**

- Define Occupied Bed Equivalent.
- Identify the difference between a trend and an outlier in a loss run.
- Identify the components of the risk modification factor/formula.
- Determine the factors that influence the calculation of IBNR.



# EXAM SPECIFICATIONS AND LEARNING OBJECTIVES

## Exam Specifications = Blue

### Learning Objectives Aligned with Exam Specifications = Red

#### Develop enterprise risk financing strategies to address the organizations areas of exposure (e.g., general liability (GL), professional liability (PL), cyber liability)

- Differentiate between the different types of insurance.
- Identify the applicability of different types of insurance coverage.
- Differentiate between direct insurance and reinsurance.
- Explain how an insurance policy's terms and limits affect future risks.

#### Provide recommendations to reduce risk in contracts, ensuring adequate controls and obligations for insurance coverage areas appropriate to the risk.

- Identify coverage to identify applicable insurance and limits.
- Explain how indemnification language relates to the contractual transfer of risk.
- Demonstrate how to avoid coverage gaps with claims made insurance.
- Describe the importance of liability limitations in contractual risk transfer.
- Describe when a joint defense agreement is feasible and beneficial.

#### Ensure timely reporting of incidents according to insurance policy language.

- Identify the differences between the Indemnity and Expense reserves.
- Determine the difference between a potentially compensable event (PCE) and a claim.
- Determine when an event needs to be reported to the insurance carrier.
- Identify when an event needs to be reported to federal and state entities.





# RISK FINANCING PRACTICE QUESTIONS

The following multiple-choice questions are a sample of the type of questions you'll encounter when taking the CPHRM Exam.

ASHRM's risk financing subject matter experts have developed these questions to closely resemble the exam content. Each question is aligned with exam specifications and learning objectives.

These practice questions provide a rationale for each selection and associated references to help you gain a better understanding of these materials.



# RISK FINANCING PRACTICE QUESTIONS

## EXAM SPECIFICATION:

Analyze historical loss experience; address trends

## LEARNING OBJECTIVE/TOPIC:

Define Occupied Bed Equivalent.

## Question 1

The risk manager is working with their actuary in preparation of the insurance renewal. The actuary requests the facility's exposure information in order to calculate the Occupied Bed Equivalents (OBE). What is the OBE?

### Answer Choices

1. The OBE is the sum of all facility exposures compared to the insurance.
2. The OBE takes all exposures and creates an equivalent measure of value.
3. The OBE is the same as the IBNR (incurred by not reported).
4. The OBE is the measurement of physician exposure to facility exposure.

#### Resource:

ASHRM Healthcare Risk Financing Playbook pages 178-189

### Answer Rationale

#### Correct:



2. The OBE takes all exposures and creates an equivalent measure of value. Regardless of whether the exposure is an ER visit or the employment of a physician, the OBE creates a way to compare all exposures in an equal matter, to allow for a comparison across the facility of claims to exposures.

#### Incorrect:



1. The sum of all of the exposures compared to the insurance is not a valid measure, instead the OBE must create an equalization of the exposure before comparing it to other exposures.
3. The IBNR looks at forecasting future claims that have not yet been reported, while the OBE looks at current losses and compares it to exposures.
4. While the OBE does look at both physician and facility exposures, it doesn't compare them but instead translates everything into a single acute bed equivalent.



# RISK FINANCING PRACTICE QUESTIONS

## EXAM SPECIFICATION:

Provide recommendations to reduce risk in contracts, ensuring adequate controls and obligations for insurance coverage areas appropriate to the risk.

## LEARNING OBJECTIVE/TOPIC:

Identify coverage to identify applicable insurance and limits.

## Question 2

The hospital brings on a group of medical providers who were previously covered by an occurrence policy that commenced 1/1/2000 and ended 12/31/2021 (Policy A). The hospital's policy is claims made (Policy B), and the physician group is brought into the insurance program with a tail policy (Policy C) effective 12/31/2021, with a retroactive date back to 1/1/2000.

One of the providers is surprised by a lawsuit which is served on 2/1/2022 and involves care rendered to a patient in June of 2020.

Which insurance policy would apply to the new lawsuit?

## Answer Choices

1. Policy A, the physician's policy, which is triggered by the June 2020 date of care.
2. None of the policies apply as the Statute of Limitations has likely expired.
3. Policy C, the tail policy, which is driven by the claim made date of 2/1/2022.
4. Policy B, the hospital's policy, which is triggered by the claim made date.

### Resource:

ASHRM Healthcare Risk Financing Playbook pages 35-38, 125

## Answer Rationale

### Correct:



3. Policy C, the tail policy, which is driven by the claim made date of 2/1/2022. The tail policy addresses any claims arising in the current policy period that arise from care rendered before the physician group was brought into the hospital's insurance program.

### Incorrect:



1. Policy A, since it's an occurrence policy, becomes ineffective after it ends on 12/31/2021. Instead, the tail policy would apply to this loss.
3. While the Statute of Limitations may have been exceeded here, the triggering event of the policy is the presentation of the lawsuit. Thus, the file would be created under the tail policy and then the defenses pursued.
4. Policy B is triggered by the claim made date, but as the date of occurrence predates the hospital's acquisition, the coverage would fall under the tail policy.

# RISK FINANCING PRACTICE QUESTIONS

## EXAM SPECIFICATION:

Ensure timely reporting of incidents according to insurance policy language

## LEARNING OBJECTIVE/TOPIC:

Identify the differences between the Indemnity and Expense reserves.

## Question 3

The risk manager receives notice of a new lawsuit and needs to establish reserves for her file. Which of the following statements is true for this situation?

### Answer Choices

1. The Indemnity reserve must be larger than the Expense reserve.
2. The Expense reserve is dedicated to a payment to the injured patient.
3. Neither reserve needs to be set right away on a new lawsuit.
4. The Expense reserve is also called ALAE (adjusted loss adjustment expense).

#### Resource:

ASHRM Healthcare Risk Financing Playbook pages 207-216

ASHRM Claims and Litigation Playbook pages 64-66

### Answer Rationale

#### Correct:



4. The Expense reserve is also called ALAE (adjusted loss adjustment expense). The Expense reserve is set to cover any of the costs of handling the lawsuit, from the cost of the investigation as well as the fees for both defense counsel and experts.

#### Incorrect:



1. It is not a requirement that the Indemnity reserve is greater than the Expense reserve. Reserve amounts should reflect what is needed to address the exposure for this specific matter.
2. The Expense reserve covers the expenses of the file – it's the Indemnity reserve that would be used to compensate an injured patient.
3. The reserves should be set as early as possible when a new case file is created. The goal of the reserve is to 'set aside' monies that may be needed for the expenses and indemnity for the specific matter, and expenses may start incurring from the first day that the file is open.



## **CPHRM ONLINE PRACTICE EXAM: RISK FINANCING DOMAIN**

Continue your self-assessment with the eLearning resource “CPHRM Online Practice Exam: Risk Financing Domain.” This interactive online program covers every risk financing learning objective through 26 multiple-choice questions, with real-time feedback and references, developed by the same team that brought you this guide.

**Keep Learning at**  
**[ASHRM.org/Practice-Exam-Risk-Financing](https://www.ashrm.org/Practice-Exam-Risk-Financing)**



